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RUEATRS/DEPT OF TREASURY WASHDC

CONFIDENTIAL SECTION 01 OF 03 NEW DELHI 005290

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FROM AMBASSADOR MULFORD FOR UNDERSECRETARY BURNS AND
TREASURY DEPUTY SECRETARY KIMMETT

E.O. 12958: DECL: 12/11/2017

TAGS: PREL EFIN FAIR IN BT

SUBJECT: USG SHOULD GIVE BHUTAN BACK FROZEN DRUK AIR FUNDS

REF: A. A. NEW DELHI 7926

¶B. B. NEW DELHI 7189

Classified By: Ambassador David Mulford for reasons 1.4 (B,D)

¶11. (C) I would like to bring to your personal attention the long-standing unresolved matter of Bhutanese government funds frozen due to USG economic sanctions against Burma. I want to offer a way forward for resolving this bilateral irritant with the Bhutanese and thereby send a message that the USG values their courageous march toward creating democratic institutions and their steadfast support in key votes in the UN. Over the last three years, I have been repeatedly approached by the Ambassador of Bhutan to India requesting the release of Bhutanese funds which were seized pursuant to current sanctions against Burma (see non-paper at para 8). In 2003 the U.S. government blocked a total of USD 97,703 belonging to the Bhutan national airline, Druk Air, from being transferred to the "Myanmar Department of Civil Aviation" and "Myanmar Airways" via the "Myanmar Foreign Trade Bank." I strongly believe that there are compelling foreign policy reasons to act quickly to unblock the funds and release them to Bhutan's --not/not Burma's -- custody. Following are two reasons to do so:

A Democratic Awakening

¶12. (C) South Asia is witnessing Bhutan's peaceful transition from an absolute monarchy to a constitutional democracy. In large thanks to increased official engagements between the U.S. and Bhutan, our government is in a position to encourage this fledgling democracy through its first few critical years. Bhutan's peaceful transition stands out as a welcome anomaly in a region rife with political conflict and failing democracies. The benefits of granting a token reward for a country that prioritizes the establishment of democratic institutions does not detract from -- and may potentially enhance -- the U.S. government goal of punishing the Burmese dictatorship. We are sending a strong signal to the Burmese military junta that authoritarian rulers will continue to be punished while peaceful, democratic transitions will be actively assisted, supported, and endorsed.

An Ally in the UN

¶13. (C) We see tangible examples of how this country is welcoming closer ties with the U.S. and supporting our

foreign policy objectives. Bhutan has voted with the U.S. in the UN General Assembly. The Bhutanese Ambassador told me that despite "losing many of (their) friends," Bhutan abstained on a key 2005 CHR Resolution on Cuba -- seeing closer ties with the U.S as an investment. We won that vote thanks in part to their new support. Bhutan voted against Venezuela for the rotating Latin American seat on the UN Security Council (Ref A) and against proposals in the UN Human Rights Council to condemn the U.S. (Ref B). I recently received an action request from the State Department to send a letter of appreciation for Bhutan's votes in the UN General Assembly on the human rights situations in North Korea, Iran, Belarus, and Burma. It is critical to note that with this vote, Bhutan again broke from the traditional Non-Aligned Movement (NAM) voting pattern, acting independently based on shared values of good governance and respect for human rights. The Bhutanese government made a concerted decision to act on its own accord, motivated by its desire for improved relations with the U.S. and gradually distance itself from NAM countries.

Money Would Not Go To Burma

¶4. (C) When I attempted to get State and OFAC to un-freeze these funds a year ago, I was told that there was no way we could allow funds to be released to the Burmese regime. I agree, and am not asking for such a step. The Bhutanese already covered their debt to the regime in Rangoon. We are now holding Bhutanese money that should just go back to Bhutan. It will not in any way go to the Rangoon regime. I hope this distinction will this time allow us to release the funds.

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Background

¶5. (C) Bhutan is a small country with one tiny airline servicing all its air travel needs. Burma is a neighbor with which Bhutan shares a common religion and similar cultural practices. In 1997 Druk Air began using a stop in Burma for re-fueling and transit facilities for a short period of time. Druk Air flew to Rangoon from 1997-1998 and then again from 2002-2004. Despite consistent pressure from the Burmese to resume flying to Burma, the Bhutanese have since resisted and continued to find alternative routes to continue serving their citizens.

¶6. (C) In 2003, the US government blocked a total of six transfers, totaling USD 84,023 plus one additional transfer of USD 13,680 under current sanctions law, Executive Order 13310 of July 28, 2003 (see para 7). The Bhutanese acknowledged that the U.S. Department of Treasury confirmed that six transfers totaling USD 84,023 would remain blocked under current U.S. law, and that a seventh transfer of USD 13,680 had not been blocked, contrary to Bhutanese claims. We are trying to ascertain if the USD 13,680 is indeed available to return to Bhutan.

¶7. (C) In November 2006, Post requested Washington agencies to investigate the issue to see if the matter could be referred to the U.S. Treasury Department's Office of Foreign Assets Control to consider release of the funds to Bhutan.

¶8. (SBU) BEGIN TEXT OF BHUTANESE NON-PAPER.

Subject: Druk Air's Blocked Funds

A total of USD 97,703.00 remains blocked by the Department of Treasury and the American Express Bank since 2003 pursuant to Executive Order 13310 of 28 July 2003 as part of the Myanmar Sanctions Programme. The funds were to be paid by Druk Air to the Myanmar Department of Civil Aviation and Myanmar Airways

via Myanmar Foreign Trade Bank. The details of the case are as follows:

<u>11.</u> Case No. BU-881	-USD 15,855.00
<u>12.</u> Case No. BU-460-a	-USD 25,850.00
<u>13.</u> Case No. BU-537-a	-USD 23,760.00
<u>14.</u> Case No. BU-943	-USD 8,250.00
<u>15.</u> Case No. BU-944	-USD 6,792.00
<u>16.</u> Case No. BU-945	-USD 3,516.00
<u>17.</u> Case No. BU-1044	-USD 13,680.00

Total -USD 97,703.00

Since 2004 The Bhutan National Bank, (BNB,) who made the transfer on behalf of Druk Air, and Druk Air have been pursuing with the Treasury Department and American Express bank to have the blocked funds released. We have also pursued the matter through PMB, New York, but with no success. We have been informed that the Treasury Department cannot under the current circumstances authorize the release of the funds amounting to USD 84,023/- and that case no. Bu-1044 involving USD 13,680/- is being handled separately as it does not appear to have been blocked. The Department of Civil Aviation, Myanmar and Myanmar Airways have directly been paid in cash.

Foreign Secretary Yeshey Dorji raised the matter with Senator Arlen Specter during their meeting on 15 August 2006. Senator Specter agreed to look into the matter. The matter was also taken up by Foreign Secretary Yeshey Dorji with the staff delegation. They have also agreed to look into the matter.

The US Embassy is requested to kindly pursue the matter with the US Treasury Department and American Express Bank. The release of the blocked funds would not be inconsistent with the US sanctions policy as far as the transfer of the blocked funds is not effected in favour of the beneficiary bank, the Myanmar Foreign Trade Bank. All relevant details have been submitted to the US Treasury Department by the Bhutan National Bank.

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END TEXT OF BHUTANESE NON-PAPER.
MULFORD